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Two for One: Building a Versatile Canadian Priorities Agenda

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The IRPP's *Canadian Priorities Agenda* project was the inspiration for the 2008-2009 capstone seminar in the MPP program of the School of Public Policy and Governance at the University of Toronto. Taught by Wendy Dobson and Carolyn Hughes Tuohy, two of the judges in the original IRPP project, the course was offered in an intensive format as a core requirement in the final semester of the two-year program. The *Canadian Priorities Agenda* volume formed the basic text for the course, supplemented by readings chosen by the two instructors and guest presenters. The students took the role of judges; and the final assignment was the preparation of a 5,000-word paper, modeled on the judges' reports in the original project, making the case for an agenda comprising five policies selected from options presented in the course.

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INTRODUCTION

Canada's principal public policy challenge over the next 50 years will be to reconcile competitiveness with compassion and sustainability. Each of these three objectives has held an important place in Canadian public policy over the last 50 years, with the relative emphasis shifting in response to changing priorities and circumstances. Arguably, in the 1960s and early 1970s, compassion was preeminent. During these years, the Canadian welfare state expanded dramatically. Medicare first emerged in Saskatchewan in 1962, and was then established across Canada in 1966. The Canada Pension Plan was also created in 1966. In 1964, the federal government established a student loans program and, in 1971, it dramatically expanded the unemployment insurance program.

In the mid 1980s the focus began to drift from compassion to competitiveness. The Mulroney government privatized a wave of Crown corporations, reasoning that they would be more profitably and efficiently run in the private sector. Canadian-American free trade triumphed in 1988, followed by the North American Free Trade Agreement (NAFTA) in 1992. The general sales tax (GST) replaced the manufacturers' sales tax (MST) in 1991. Government austerity and balanced budgets became the golden rule in the mid-1980s and common practice in the 1990s.

Unlike the other two objectives, sustainability has not yet had a golden age. Nevertheless, it has occasionally been a priority. Revisions to the *National Parks Act* in 1979 made guarding ecological diversity an important function of national parks. The United States and Canada signed the Acid Rain Treaty in 1986. The *Environmental Protection Act*, passed in 1999, tightened regulations on toxic waste. Most recently, successive political administrations have tried to bring climate-changing greenhouse gas emissions under control.

In almost every one of the public policy initiatives mentioned above, one of the most contentious aspects was a perceived trade-off between competitiveness and compassion or sustainability. For example, it took a long time to negotiate the acid rain treaty because of widespread concern that it would too costly for industries to reduce their sulphur dioxide emissions. Similarly, critics of NAFTA argued that it was a mistake not to include provisions that

protect environmental and labour standards. Finally, even in the 1960s, a vocal minority worried that new social programs would sap individual initiative.

Trade-offs are, of course, an unavoidable reality of public policy. However, over the last few decades, advances in information communications technology and increasing trade and capital mobility – "globalization," in short – have made competitiveness an increasingly important imperative. For now and into the foreseeable future, jobs, firms and investment will flow to those parts of the world where conditions are most profitable. Under such circumstances, trading-off some competitiveness for the sake of sustainability or compassion appears to be less and less viable as a policy option.

Instead, in today's policy environment, compassion and sustainability must not only be ends in themselves, they must also be instrumental enhancing competitiveness. To put it crassly, good public policies must be "two for ones!" I have chosen to build my Canadian Priorities Agenda around this idea. Every policy that I propose will serve to make Canada not only more sustainable and compassionate, but also more competitive.

CRITERIA

All the policies in my agenda must meet three criteria. First, they must be versatile, that is, they must be "two-for-one" policies along the lines described above. There must be compelling evidence to suggest that each policy on my agenda would make Canada *both* more competitive *and* more compassionate or environmentally sustainable.

I recognize that these are all potentially ambiguous terms. Some subjectivity is unavoidable. Indeed, if entirely objective criteria could be imagined, it would be unnecessary to have me as a judge at all. Nevertheless, rough definitions of my terms will help narrow the field of ambiguity. By competitiveness, I mean the degree to which a country is an attractive place for a firm to locate production. By compassion, I am referring to some sense of social justice whereby the vulnerable are protected and the disadvantaged are given opportunities to improve their lot. Finally, environmental sustainability requires that production occurs in a manner that permits vital earth's ecological processes to endure. Achieving sustainability requires that environmental externalities be "internalized"; that producers incur economic costs corresponding to the ecological costs of their activities.

Second, my choices should be cost effective and efficient. They should require as few public funds as possible, and distort market-incentives as little as possible. My third criterion is equity. While a perfectly equal society is neither desirable nor attainable, good public policies should be compatible with a reasonable equity in opportunities and outcomes – that is, they should be based on progressive redistribution. Ultimately, the cost-effective criterion is embodied in the competitiveness of the "two-for-one" requirement, and the fairness criterion is embodied in the compassion requirement. Nevertheless, I believe both are worth highlighting as separate criteria, for the sake of clarity.

Finally, for my fourth criterion, I have chosen political and administrative feasibility. The rationale here is quite simple – good policies are of little use if they are impossible to implement.

In addition to these criteria, I have also chosen one more criterion by which to evaluate my package as a whole – fiscal sustainability. Canada's strong fiscal management in the 1990s resulted in an important competitive advantage in the 2000s. Canada should build on this advantage in the future. This means my policies should not create a large structural deficit, or they at least should include a plan to finance them should such a deficit emerge.

In the next five sections I will apply my criteria to five policies. Although I mention most criteria with respect to most policies, for the sake of brevity I have occasionally left out certain criteria for certain policies where they are less applicable or obvious. In the penultimate section I apply the fiscal sustainability criteria and in the final section I conclude.

THE POLICY PACKAGE

1. A carbon tax to mitigate climate change as efficiently as possible

Climate change is a serious threat to the environmental sustainability of the global economy. In 2007, the International Panel on Climate Change (IPCC) released its Fourth Annual Assessment Report. The report stated, "Warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice and rising global average sea level" (30). It continued, "Most of the observed increase in global average temperatures since the mid-20th century is very likely [>90 percent likely] due to the observed increase in anthropogenic GHG concentrations" (39).

The report goes on to describe some of the probable effects of climate change. These include increased rates of species extinction, changes in regional patterns of agricultural-productivity and water-scarcity, and increased costal erosion and flooding (48-50). Climate change is also a serious threat to Canada. Indeed, Canadians can already notice the direct effects of climate change here at home. Most notably, climate change is identified as the culprit (Carroll et al. 2004) in the mountain pine beetle epidemic that according to some estimates has killed more than 50 percent of the mature pines in Western Canada. All of these impacts – at home and around the world – are, of course, not only environmental but also economic. For example, the pine beetle has devastated the Canadian forestry industry. This is the first reason why I consider a climate change policy option to be versatile – because climate change is both an economic and an environmental problem.

Clearly, climate change is a serious enough problem to warrant a place on my priorities agenda. But will any of the six climate change proposals on the "policy menu" meet our criteria? Three of the options would place a price on carbon. Two are regulatory approaches. One involves setting targets but does not specify mechanisms for achieving them. The supply-mix target proposal can be rejected outright. Nearly 20 years of Canadian experience with climate change strategies has shown that targets are much less important than the mechanisms chosen to achieve them (Jaccard and Rivers 2007, 86-7). Both of the regulatory policies ultimately place a disproportionate weight on the cost of reducing greenhouse gas (GHG) emissions on a certain sector – either the building and appliance sector or the automotive sector. This is not *necessarily* a bad thing. It may be precisely what is needed to overcome the information asymmetries between producers and consumers and prohibitively large upfront costs that inhibit the recognition of incentives for capital investments and research and development into carbon-efficient technologies (Jaccard and Rivers 2007, 95-9).

On the other hand, as Jaccard and Rivers point out, an effective climate change policy will consist of a mechanism that will place a price on carbon. Pricing carbon internalizes an externality by making *all* polluters pay for the harm they do to the environment – at least to whatever extent the carbon pricing mechanism is applied economy-wide. Moreover, under a carbon-pricing regime, abatement is likely to occur wherever the price of abatement is less than the price of carbon. That is, abatement will take place wherever it can be achieve most cost-effectively – carbon pricing is *efficient*.

Of the three carbon pricing mechanisms, I prefer Nancy Olewiler's carbon and air pollutants tax – perhaps counter-intuitively – because of its potential to enhance Canadian competitiveness vis-à-vis the United States (2007, 147-50). The United States appears to be headed toward a cap-and-trade system. However, cap-and-trade systems suffer from two key disadvantages when compared with a carbon tax. First, cap-and-trade is much more costly to administer. Resources are required to regularly reallocate emissions credits, to regulate the emissions credits market and intertemporal banking and lending activities. A carbon tax, on the other hand, can be applied to most emissions within the economy through the existing tax system simply by levying it on carbon fuel wholesalers. Other emitters – in the agricultural sector, for example – could be required to report and pay a tax on their emissions-causing activities as a part of their regular tax reporting obligations.

Second, cap-and-trade opens a door to rent-seeking behaviour attempting to affect the allocation of emission credits (Ellerman and Joskow 2007, 35-9). Rent-seeking is more unlikely with an economy-wide carbon tax because it would necessitate separately enacted tax breaks or subsidies. Of course, distributing credits through an auction mitigates this rent-seeking problem under cap-and-trade, but for all intents and purposes, cap-and-trade with auctioned credits *is* a carbon tax.

Some suggest that Canada should join the American cap-and-trade initiative in order to insure that achieving sustainability does not make Canada less competitive vis-à-vis the United States. In fact though, no matter what the United States does, the most efficient and cost effective way to reduce greenhouse gas emissions is through a carbon tax. So, by adopting a carbon tax rather than a cap-and-trade system, Canada actually could improve its relative competitiveness with respect to the United States, and be more likely to achieve its sustainability goals. In this, a carbon tax is a versatile policy indeed.

It is worth noting, also, that a carbon tax would likely be somewhat regressive in distribution. This is because consumption is a larger proportion of overall expenditures for the middle class and the poor than for the rich, and because a carbon tax would likely be passed on to the population primarily through the cost of consumption (in proportion to the embodied GHG content in consumed goods and services). This is a concern. However, the majority of my other policies, described below, focus on creating and improving services to low and middle-class Canadians. As such, I believe that the sacrifice in equity involved in a carbon tax is compensated for by the dramatic increase in equity involved in the rest of my proposals.

One possible concern with a carbon tax is political feasibility. In the last federal election, the Liberals' carbon tax proposal backfired rather dramatically. However, I believe this had little to do with the actual policy and much more to do with a failure to communicate with the electorate. Ultimately, the general principle behind a carbon tax – if you pollute, you pay – is highly saleable. Moreover, the simplicity of design of a carbon compared to a cap-and-trade system makes it potentially more saleable to the electorate as well. This is not to say that implementing a carbon tax would be easy. However, with a measure of political skill and leadership, I think it would be possible.

2. Targeted early childhood education

The second policy I have chosen for my agenda is targeted early childhood education (ECE) along the lines proposed by Craig Riddell in his contribution to the CPA project. It is notable that the CPA project included *two* ECE proposals – one in the section on health outcomes (Evans, Hertzman and Morgan 2007), and Riddell's, in the section on education (2007). Indeed, ECE offers much on both fronts. First, with respect to education, an ample body of research shows that essential cognitive and social tools are acquired very early in life. Ensuring, therefore, that all children spend ample time during their early years in a challenging and enriching environment is extremely important (Evans, Hertzman and Morgan 2007, 294; Riddell 2007, 27). Second, with respect to health, since well-educated adults tend to be healthy adults, better education is also likely to improve health. Just as importantly, more available ECE allows more mothers to work and thus improves the economic means of households with young children, thereby reducing child poverty – another of the important determinants of health. Finally, ECE programs can serve as epicentres for a variety of health services to young children (Evans, Hertzman and Morgan 2007, 295-8)

In fact, including an ECE proposal in one of the articles focusing on economic growth would also have made good sense. Human capital formation is an important ingredient in productivity growth. Canada already invests heavily in education and has one of the most highly educated workforces in the world (Riddell 2007, 22-6). As such, additional investment in many areas of education is of questionable value, given the reality of diminishing returns. Since ECE investment in Canada is currently extremely low, it is one of the few areas where large potential gains remain (Riddell 2007, 28).

Thus, early childhood education clearly passes the versatility test, but what about cost-effectiveness? One of the most difficult questions with respect to ECE is whether it would be better to implement a universal program, or one

that targets only "at risk" children on the basis of socio-economic status. Proponents of targeted approaches argue that universal programs are inefficient and unnecessarily expensive because they result in "windfall beneficiaries" – parents who would have purchased high-quality private ECE even if they had not received it as a government benefit (Baker, Gruber and Milligan 2008, 710-1). They also argue that child care can have bad effects on children's temperaments – especially when quality is not of especially high (Baker, Gruber and Milligan 2008, 726-9; Riddell 2007, 32). Better, they argue, create a system targeting children from poor families that would otherwise be unable to afford high-quality care.

Proponents of a universal program argue that "at risk" children – children who would benefit from high-quality ECE – are not always found in poor families. Furthermore, they argue that important benefits do in fact accrue to all children in high quality ECE, regardless of socio-economic status. Finally, they suggest that even with windfall beneficiaries, the benefits of universal ECE outweigh the costs (Doherty 2007, 30-40).

This is a difficult controversy. I am not an expert in early childhood education, and as such, when one scholar claims that the evidence suggests that all children benefit from ECE and another claims that only poor children benefit, I am left scratching my head in bewilderment. On the other hand, I find Doherty's "at-risk children are not always poor" argument a dubious justification for a universal system. Proponents of a targeted system probably agree that developmentally at-risk children can appear anywhere in the income distribution. However, they would also suggest that middle and upper class parents of at-risk children ought to pay for ECE themselves. I would be inclined to agree and, as such, I have chosen to go with Riddell's proposal for a targeted system. One aspect of Riddell's proposal that I like is its reliance on income-sensitive vouchers. If properly implemented, this approach could help address the reality of at-risk children whose parents can afford to pay most of the costs associated with ECE, but could use a little bit of help. Such vouchers would also serve as an incentive to choose high-quality care. I also appreciated Riddell's emphasis on the advantages of vouchers in allowing parental choice in ECE options, in avoiding income-segregation in the distribution of children across facilities. Both are important implementation considerations. A targeted program should not facilitate the creation of a two-tier reality where poor children are systematically directed to worse ECE options.

3. Merit-based scholarships for low-income students

I have also chosen to accept Riddell's proposal regarding merit-based scholarships for low-income students. Once again, this is a prime example of a versatile "two-for-one" policy. Making university education more accessible to poor families is a compassionate policy because it enhances equality of opportunity and social mobility. Equally important, the policy has the potential to improve Canadian competitiveness by increasing the percentage of Canadians who receive university diplomas, thereby making the workforce more human-capital rich and productive.

Riddell points out that Canada's educational attainment percentages are somewhat unusual for an OECD country. On the one hand, 34 percent of Canadians aged 25-64 have a non-university postsecondary diploma, about triple the OECD average. On the other hand, only 22 percent of Canadians are university graduates, compared with an OECD average of 25 percent. Compared with other OECD countries, Canadian funding is skewed towards non-university postsecondary education. These figures suggest that the marginal return on additional investment in university education is likely to be high (Riddell 2007, 23-4, 38-9, 44-5). Furthermore, like his ECE policy, Riddell's university scholarship policy would involve targeting to low-income students, making the policy more cost-effective.

The final aspect of Riddell's policy that I appreciate is his proposal to link it to the deregulation of post-secondary tuition rates. Provincial governments stretched thin amidst rising health care expenditures have allowed per student postsecondary education funding levels to fall 30 percent since the early 1980s, while per student funding in the United States has increased 20 percent over the same period. Meanwhile, even though average Canadian post-secondary tuition fees increased dramatically during the 1990s (Riddell 2007, 23) and have continued to increase since (Statistics Canada 2009), they remain well below those of the United States (OECD 2008, 279-80). With less income from government sources and tuition fees, it is no surprise that Canadian universities are struggling to keep up. Universities and university graduates are far too important an engine to Canadian competitiveness to allow this situation to continue. Unfreezing tuition rates and undertaking significant new investment in scholarships for low-income students will insure that universities will improve their ability to provide high quality education to all students, while ensuring that the cost of education does not shut out poorer students.

4. Adult benefit infrastructure reform

The fourth policy I have chosen is the three-tier adult benefit reform proposed by Battle, Mendelson and Torjman (2006) of the Caledon Institute. Current adult benefit programs (principally employment insurance and social assistance) suffer from a host of problems. First, benefits have declined in value over the past several years and are now so low that they put beneficiaries well below the welfare line (Battle, Mendelson and Torjman 2006, 6, 12; Duclos 2007, 242). Second, even though benefits are low, they are often higher than minimum or low-wage employment. As such, recipients often have little incentive to exit the system. This is especially true for unemployed parents, because employment insurance payouts are adjusted according to family size (Battle, Mendelson and Torjman 2006, 6, 24; Duclos 2007, 242).

Third, the eligibility requirements of the current system are too tight. Reforms in the mid-1990s designed to reduce welfare-dependency make it difficult for legitimate claimants to receive benefits (Battle, Mendelson and Torjman 2006, 15-6). "Nonstandard workers," including self-employed, part-time, and contract workers, are especially unlikely to be eligible. These workers now account for approximately one-third of the Canadian labour force (Battle, Mendelson and Torjman 2006, 7). Until recently, this has primarily been a social justice problem. With the current recession, though, it has become clear that employment insurance is no longer the effective "automatic stabilizer" it once was. That is, in the past, when economic growth slowed and unemployment grew, higher welfare benefits stimulated the economy. Now, tight eligibility requirements mean fewer laid-off workers receive benefits quickly, and the strength of the stimulus is correspondingly weaker.

Fourth, the current system is too complicated. Its definitions, rules, exceptions, and formulas are confusing. Beneficiaries have a difficult time understanding the system, and administrators frequently make errors (Battle, Mendelson and Torjman 2006, 13). All of this is problematic, because (1) it is administratively costly; (2) a key goal of the unemployment system should be to help employable unemployed Canadians get jobs – this is substantially less likely to occur when incentives are obscured by incoherent and incomprehensible system architecture; and (3) it belittles and demeans the unfortunate, including those that have long-term disabilities that prevent them from participating in the labour market.

Fifth, the current system has geographically based eligibility requirements that are unjust (Battle, Mendelson and Torjman 2006, 18, 22; Duclos 2007, 241). The federal government should not treat Canadians differently based on where they reside.

Sixth, in the current system unemployed workers – especially unemployed workers who fail to qualify for employment insurance – have difficulty accessing effective education and retraining programs that enhance their employability (Battle, Mendelson and Torjman 2006, 21; Duclos 2007, 245).

The Caledon Institute responds to these and other problems by proposing dramatically restructured Canadian adult benefits. The new system would consist of three tiers. The first tier, called "temporary income" (TI), would provide means-tested assistance to temporarily unemployed yet employable Canadians. Temporary income would not have the stringent eligibility requirements that prevent so many Canadians – especially nonstandard workers – from getting help. Additionally, it would not provide training and education benefits, because most temporarily unemployed Canadians don't need them. However, the program would be available only for a few months every few years. Repeat and chronically unemployed workers would have to move onto the second tier of the program – employment preparation (EP).

The main purpose of employment preparation would be to help beneficiaries acquire the skills necessary to find good work. Participants would have access to (indeed, presumably they would be required to participate in) a variety of retraining and education and employment coaching programs. Only people who could not be expected to find employment would be allowed into the third tier of the program – basic income (BI). This tier would provide long-term, reasonable benefits that would be a substitute for employment. Finally, the Caledon Institute proposes that minimum wages be raised and the tax code be reworked for low (working) levels of income in order to assure that workers exiting the TI and EP programs benefit by finding work.

The Caledon proposal addresses all of the problems described above. All benefits would be calibrated to allow recipients to live above the poverty line (problem one) but still benefit by exiting the system to employment (problem two). All temporarily unemployed workers would be eligible for TI, and TI would expand quickly in a recession as participation in it expanded (problem three). The system would be simple – paying fixed rate benefits and not relying on complex eligibility criteria except for the income testing in TI. The EP program is explicitly

designed to avoid patronizing and confusing participants (problem four). Geographically based benefits would be abolished (problem five). EP would emphasize training above all else (problem six).

Thus the Caledon proposal is certainly versatile. A more effective adult benefits architecture would be one that improves Canada's competiveness by acting as an automatic stabilizer and by efficiently helping unemployed Canadians acquire the skills necessary to find employment. The Caledon system would also be more compassionate – a vast improvement on the unjust, stingy, and patronizing current program.

As for cost effectiveness, the Caledon proposal would be very expensive. However, if the program were effectively run – if it did solve the plethora of problems listed above, it would be worth the expenditure, and pay for itself many times over in improved economic performance. Finally, with respect to feasibility, this proposal would likely be the most difficult of those I have chosen so far. Nevertheless, while challenging, it is feasible. The biggest barrier would be the federal-provincial negotiations that would be necessary before such a system could be contemplated. Such negotiations are always fractious and sometimes unsuccessful. On the other hand, since the provinces and the federal government both have a stake in improving the current, deeply flawed system, they both have a strong incentive to find solutions. Many aspects of the proposal might intrigue provinces. The possibility of shedding fiscal responsibility for social assistance might be particularly appealing. As Battle and his colleagues point out, because of the cost and complex implementation process involved in the Caledon proposal, it would have to be implemented incrementally (2006, 31)

5. Productivity growth through decreasing the marginal effective tax rate on investment

The final policy I have chosen is Andrew Sharpe's proposal to eliminate provincial sales tax on purchases of machinery and equipment, the marginal effective tax rate (METR). In the original Canadian Priorities Agenda project, this was the single most popular proposal. Four of the six judges chose it as one of their five priorities. Considering the extreme importance of productivity growth for improving Canadian welfare and the almost certain efficacy of this policy for improving productivity growth, this should come as no surprise.

As Sharpe points out in his study, productivity – and in particular, labour productivity – is the single most important determinant of material standards of living. When labour productivity increases, there is more output (income) to spread around for the same number of hours worked. Canadian productivity growth has been disappointing over

the last decade. From 2000 to 2006, the annual rate of growth in labour productivity was a paltry 1.12 percent, down from 2.42 percent in the 1996-2000 period. This is particularly troubling because labour force growth – which in the past has ensured that economic growth continues even when productivity growth is slack – is also slowing in Canada (Sharpe 2007, 353-7).

Reducing the METR on investment would be effective because one of the most important determinants of labour productivity is investment in purchases of machinery and equipment. Given more and more effective tools (be they hammers or high-tech IT systems) – the same number of workers can produce more. The METR is thus an important consideration in capital purchasing decisions. Canada's METR on business investment is one of the highest in the OECD (Trefler 2008, 1170), and Canada's purchases of machinery and equipment as a proportion of GDP is, correspondingly, one of the smallest (Sharpe 2007, 373).

Certain political constituencies within the electorate might be uncomfortable with the policy, arguing that it is out of line with the progressive goals of the Canadian tax system. These equity concerns are misplaced. While the total tax burden borne by firms (rather than individuals) would likely decrease somewhat under Sharpe's proposal, corporate income taxes – which represent by far the largest part of the corporate tax burden – would remain unchanged. As such, the overall effect of the policy on the distributive character of the tax system would be marginal. Most Canadians could be brought on side if the clear purpose behind the policy – improving the standard of living of all Canadians – were highlighted.

As for versatility, one could argue that this policy is versatile in that it improves productivity, the core ingredient for improving standards of living. Indeed, as discussed above, this is an important aspect of the policy, as discussed above. But I do not want to push this argument too far. If any policy that leads to improved economic growth is to be considered versatile, then the term will quickly lose its importance. As such, without question, this policy is less versatile than the others. Nevertheless, I believe it is important that I make my policy-package, as a whole, balanced and fiscally sustainable in the long term.

FISCAL SUSTAINABILITY

By way of summary, my five policies are:

1. Carbon tax (Olewiler)

2. Targeted early childhood education (Riddell)
3. Targeted merit-based scholarships (Riddell)
4. Adult benefit infrastructure reform (Caledon)
5. Eliminate PST on capital purchases (Sharpe)

In the criteria section, I argue that my overall package should be fiscally sustainable. This package is fiscally sustainable. One of the policies – the carbon tax – would substantially increase government revenues, while the other four would substantially increase spending (or, in the case of the PST cut, reduce revenues).[1] Critics will argue that if the carbon tax is successful, the revenue it generates will decline over time. This is not necessarily true – at least in the medium term. With an effective carbon tax, the rates increase over time, in order to ensure that GHG emissions continue to decline, counterbalancing the reduction in GHG emissions to which the tax is applied. In the longer term, carbon taxes should generate strong incentives for the development of cost-effective technologies to reduce GHG emissions. At some point, the widespread deployment of these technologies could lead to such dramatic emissions reductions that the carbon tax would no longer be an effective source of revenue.

On the other hand, the four spending measures would also all result in a more competitive and economically efficient Canada. They would increase the rate of economic growth and more quickly expand the tax base. This effect will be especially important in the long-term, due to the effect of increased *compound* growth rates and delayed adjustment due to sunk costs. That is, in the medium to long terms, the four spending policies could pay for themselves, at least in part. This reasoning was a particularly important consideration for including the PST proposal in my agenda. Its potential for increasing the tax-base in the medium to long terms is quite dramatic, even though strictly speaking, it does not satisfy my versatility requirement.

Ultimately, the fiscal sustainability of the package would depend on the magnitude of three factors: the precise cost of the spending policies, the growth effect of the spending policies and the revenue generation of the carbon tax policy. Detailed information on the exact design of each of the five policies and extensive quantitative analysis would be required to determine these magnitudes. Moreover, any determination would be to some degree

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[1] The elimination of the PST on capital purchases is often suggested in the context of GST-PST harmonization, which would impose the harmonized tax on previously PST-exempt categories of consumer goods, thereby offsetting the revenue loss. While this is certainly a possibility, for the sake of focus and simplicity, this paper presumes only the most important piece of GST-PST harmonization – the elimination of the PST on capital purchases.

speculative (which is not to say that it should not be performed). Ultimately, while I believe that my package is fiscally responsible, my policy package as a whole *could* result in a structural budget deficit. This is always a possibility with an ambitious reform project. To this possibility I have two responses. First, the package would have to be implemented incrementally and consistently so its effect on the fiscal viability of the Canadian state could be evaluated. If reforms seemed to be shifting the revenue-expenditures balance into the red, then choices would have to be made. Either cuts would have to be made to new or existing programs, or taxes would have to increase. My purpose here is not to comment on the feasibility of cuts to current spending, and I believe the policies I have described here are worth their costs. As such, I would be prepared to accept the necessity for tax increases if it were to arise.

CONCLUSION

Evaluation is always a subjective process. And subjective processes are always contestable. My policy agenda leaves plenty of room for argument. Some will suggest that I did not take political feasibility seriously enough – I commented on this from time to time, but was I prepared to scratch anything off my list because it was politically infeasible? Well, perhaps not. Ultimately I chose to believe that given inspired leadership and careful framing, the political winds can shift enough to make some policies that seem implausible today doable tomorrow. Others will suggest that I should have chosen some policies that deal with Canada's foreign relations. Again, perhaps so, but I chose instead to focus on how changes to domestic policies are necessary in order for to adapt Canada to global trends. Finally, there are reasonable arguments for why I should have included different policies on my agenda – even according to my own criteria. Indeed, several other policies including national pharmacare, a higher dropout age, foreign credential recognition, and Aboriginal resource-sharing agreements were on my list of potential policies.

Ultimately, the policies I have chosen are cost-effective, progressive (in terms of equity), politically feasible, and fiscally responsible. Most importantly, though, my Canadian Priorities Agenda – as well as most of the individual policies on it – is a true "two for one." In making Canada more sustainable and compassionate, it will also improve Canada's competitiveness.

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